



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

THOMAS L. TAGLAUER, CPA
ROBERT E. LIST, CPA
STEWART J. REID, CPA
MICHAEL L. HANISKO, CPA
DAVID D. QUIMBY, CPA
KATHLYN M. ENGELHARDT, CPA
RENAE M. CLEVINGER, CPA
AMY L. RODRIGUEZ, CPA

WALTER G. WEINLANDER, CPA
ROY A. SCHAIRER, CPA
JAMES L. WHALEY, CPA
JEROME L. YANTZ, CPA
PHILIP T. SOUTHGATE, CPA
ROBERT J. DUYCK, CPA

CITY OF HARRISON
HARRISON, MICHIGAN

FINANCIAL STATEMENTS
DECEMBER 31, 2004

1600 CENTER AVENUE
POST OFFICE BOX 775
BAY CITY, MI 48707-0775
989-893-5577
800-624-2400
FAX 989-895-5842
www.wf-cpas.com
wf@wf-cpas.com

OFFICES: BAY CITY, CLARE
GLADWIN AND WEST BRANCH

RSM McGladrey Network

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Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

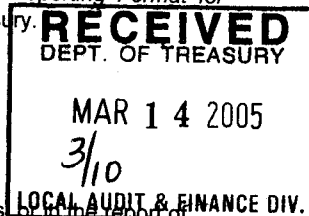
Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF HARRISON	County CLARE
Audit Date 12/31/04	Opinion Date 1/24/05	Date Accountant Report Submitted to State: 3/8/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes or in the report or comments and recommendations



You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☒ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) WEINLANDER FITZHUGH			
Street Address 1600 CENTER AVENUE		City BAY CITY	State MI
Accountant Signature <i>Stewart G Reid CPA</i>		ZIP 48707	Date 3/8/05

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INDEPENDENT AUDITORS' REPORT

January 24, 2005

Members of the City Council
City of Harrison
Harrison, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund and the aggregate remaining fund information of the City of Harrison, as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the index. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type-activities and each major fund and the aggregate remaining fund information of the City of Harrison as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of the GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of January 1, 2004.

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Members of the City Council
City of Harrison
January 24, 2005
Page 2

In accordance with *Government Auditing Standards*, we have also issued a report dated January 24, 2005 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Required Supplemental Information

The management's discussion and analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Combining Financial Statements and Other Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harrison's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Weinlander Fitzhugh

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Our discussion and analysis of the City of Harrison's financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2004.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Harrison financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For Governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Government's operations in more detail than the Government-wide financial statements by providing information about the Government's most significant funds – the General Fund, Library Operating Fund, Fire Fund and Local Improvement Fund, with all other funds presented in one column as nonmajor funds. Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail for major enterprise funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Government acts solely as an agent or trustee. The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the Major Governmental Funds (Required Supplemental Information)

Other Supplemental Information

Reporting the City as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the City's finances is, "Is the City better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2004

These two statements report the City's net assets as a way to measure the City's financial position. The change in net assets provides the reader a tool to assist in determining whether the City's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base and facility conditions in arriving at their conclusion regarding the overall health of the City.

Reporting the City's Most Significant Funds

Fund Financial Statements

The City's fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants, and other sources of revenue. The City's three types of funds, governmental, proprietary and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

Governmental Funds

Most of the City's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the City's programs. The relationship (or differences) between Governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and Governmental funds is reconciled in the basic financial statements.

Proprietary Funds

These funds are reported in the fund financial statements and generally report services for which the Government charges customers a fee. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the Government organization such as the water and sewer utilities and garbage collection.

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Fiduciary Funds

The City is the trustee, or fiduciary, for tax collections. All of the City's fiduciary activities are reported in separate Statements of Net Assets. We excluded these activities from the City's other financial statements because the assets cannot be utilized by the City to finance its operations.

Government-wide Financial Analysis

Financial position - The statement of net assets provides the perspective of the City as a whole. Exhibit A provides a summary of the City's net assets as of December 31, 2004.

	<u>Exhibit A</u>	Governmental Activities (in thousands)	Business-type Activities (in thousands)	Total (in thousands)
Assets				
Current and other assets	\$ 1,757	\$ 1,393	\$ 3,150	
Capital assets - net of accumulated depreciation	2,150	14,850	17,000	
Total assets	3,907	16,243	20,150	
Liabilities				
Current liabilities	23	78	101	
Long-term liabilities	759	5,186	5,945	
Total liabilities	782	5,264	6,046	
Net Assets				
Invested in property and equipment - net of related debt	1,374	9,590	10,964	
Restricted	0	485	485	
Unrestricted	1,751	904	2,655	
Total net assets	\$ 3,125	\$ 10,979	\$ 14,104	

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Exhibit A , on the previous page, focuses on net assets. The City's total net assets were approximately \$14.1 million at December 31, 2004. Capital assets, net of related debt, totaling approximately \$11 million compares the original costs, less depreciation of the City's capital assets to long-term debt used to finance the acquisition of those assets. Restricted net assets of approximately \$500,000 are reported separately to show legal constraints from debt requirements and legislation that limit the City's ability to use those net assets for day-to-day operations.

The \$2.7 million of unrestricted net assets of Governmental and business-type activities represents the *accumulated* results of all past years' operations. The operating results of the General, Special Revenue and Enterprise Funds will have a significant impact on the change in unrestricted net assets from year to year.

Results of operations - The results of this year's operations for the City as a whole are reported in the statement of activities, which shows the changes in net assets for the year ended December 31, 2004. Exhibit B provides a summary of the City's operations for the year. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparison to fiscal year 2003 is not available.

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Exhibit B

	Governmental Activities <u>(in thousands)</u>	Business-Type Activities <u>(in thousands)</u>	<u>Total</u> <u>(in thousands)</u>
Revenue			
Program revenue:			
Charges for services	\$ 426	\$ 893	\$ 1,319
Grants and contributions	0	190	190
General revenue:			
Property taxes	609	0	609
State revenue sharing	379	0	379
Interest and investment earnings	12	14	26
Transfers in	0	28	28
Other	132	0	132
	<u>1,558</u>	<u>1,125</u>	<u>2,683</u>
Total revenue			
	<u>1,558</u>	<u>1,125</u>	<u>2,683</u>
Function/Program Expenses			
General government	268	0	268
Public service	423	0	423
Public safety	353	0	353
Recreation and culture	256	0	256
Highways, streets and bridges	191	0	191
Sewer	0	657	657
Water	0	374	374
Garbage and rubbish	0	103	103
Other	3	0	3
Interest on long-term debt	36	0	36
	<u>1,530</u>	<u>1,134</u>	<u>2,664</u>
Total expenses			
	<u>1,530</u>	<u>1,134</u>	<u>2,664</u>
Increase (Decrease) in Net Assets	<u>\$ 28</u>	<u>\$ (9)</u>	<u>\$ 19</u>

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2004

As reported in the statement of activities, the cost of all of our *Governmental and business-type* activities this year was \$2.4 million. Certain activities were partially funded by \$1.3 million from those who benefited from the programs, or by the other Townships and organizations that subsidized certain programs with operating grants and contributions of \$190,000. We paid for the remaining "public benefit" portion of our Governmental and business-type activities with approximately \$609,000 in taxes, \$379,000 in State revenue sharing, and with our other revenues, such as interest and miscellaneous revenues.

The City experienced an increase in net assets of \$19,000 mainly due to actual expenditures being less than anticipated. There were no significant revenue increases this year. The increase in net assets differs from the change in fund balance and a reconciliation appears in the financial statements.

The City's Funds

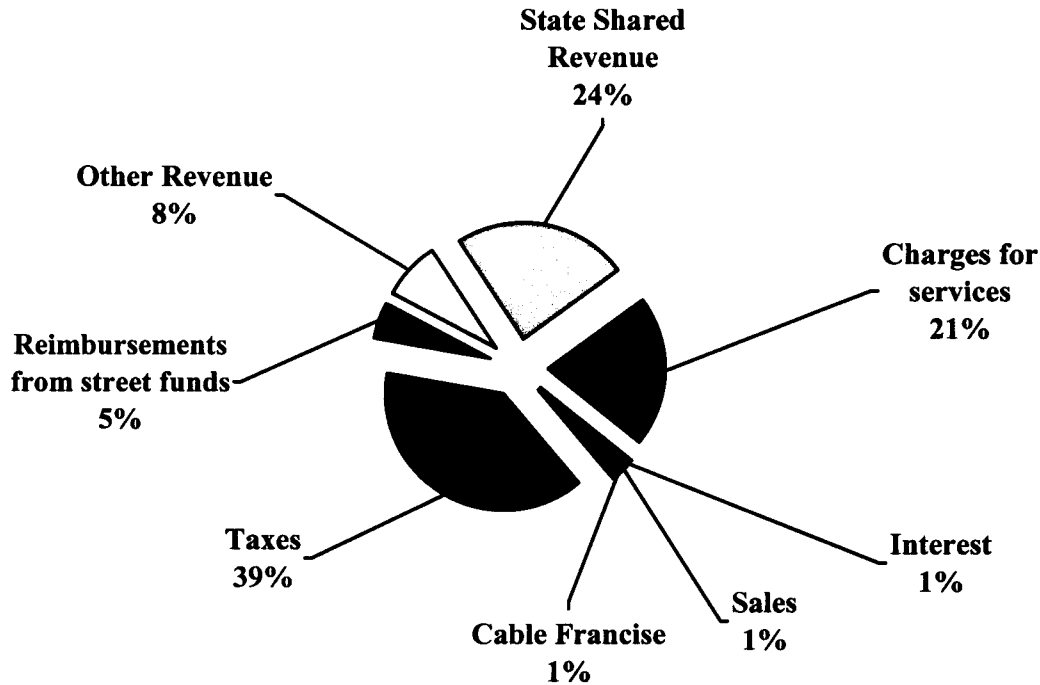
The City uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the City is being accountable for the resources taxpayers and others provide to it and may provide more insight into the City's overall financial health.

The City's Governmental funds reported a combined fund balance of \$1,751,000, which is above last year's total of \$1,735,000. The schedule below details the fund balance (in thousands) and the total change in fund balances as of December 31, 2004 and 2003.

	<u>Fund Balance</u> <u>December 31, 2004</u>	<u>Fund Balance</u> <u>December 31, 2003</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 587	\$ 543	\$ 44
Major Streets	160	173	(13)
Local Streets	92	39	53
Budd Lake	55	55	0
Building Authority	5	5	0
Library Operating	69	61	8
Fire	10	82	(72)
Local Improvement	773	777	(4)
Total	<u>\$ 1,751</u>	<u>\$ 1,735</u>	<u>\$ 16</u>

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2004

The graph below details the major sources of the City's governmental fund revenue.



The chart below compares current year revenues with last year.

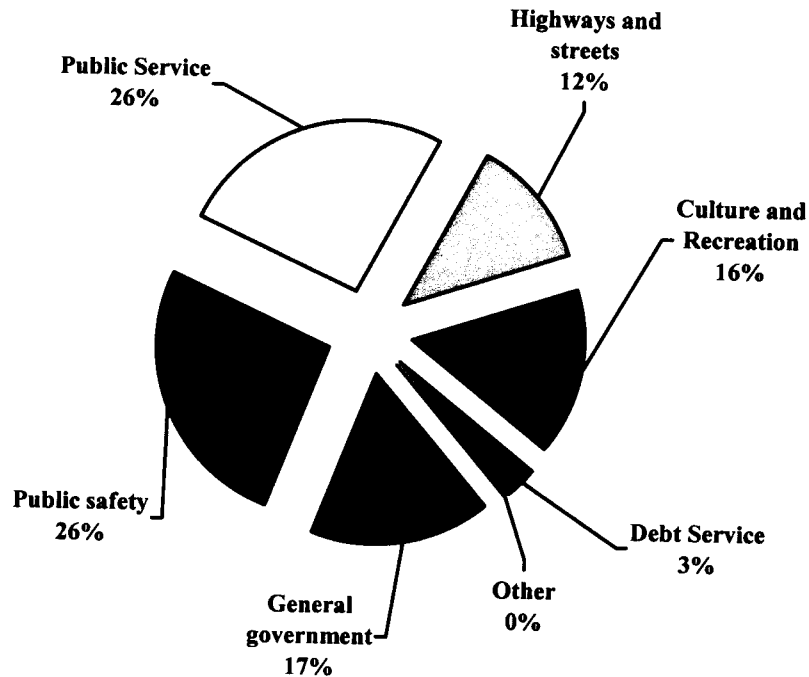
	2004	2003
<i>Revenues by Function</i>		
State shared revenue	\$ 379,000	\$ 386,000
Taxes	609,000	600,000
Cable franchise	15,000	8,000
Reimbursements from street funds	81,000	58,000
Charges for services	320,000	300,000
Other	132,000	76,000
Interest and investment earnings	13,000	13,000
Sales	10,000	13,000
Total	<u>\$ 1,559,000</u>	<u>\$ 1,454,000</u>

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Revenues are up \$105,000 due to a one time change of receipting cable franchise fees from yearly to monthly, an increase in labor and equipment paid to the general fund from the Major and Local Street Funds because of higher than normal winter maintenance activities, an increase in rent payments from the Michigan DNR for space in the Fire Hall for a full year rather than six months, the State of Michigan reimbursed the city for an overpayment of a 2000 MDOT Bus-27 paving project, the sale of surplus equipment, and a minor tax increase.

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2004

The graph below details the major expenditure categories of the City.



The chart below compares current year expenditures with last year.

<i>Expenditures by Function</i>	2004	2003
General Government	\$ 265,000	\$ 254,000
Public Safety	270,000	368,000
Public Service	323,000	365,000
Highways and streets	183,000	497,000
Recreation and Culture	241,000	230,000
Other	2,000	3,000
Debt service	49,000	44,000
Capital outlay	182,000	290,000
Total	<u>\$ 1,515,000</u>	<u>\$ 2,051,000</u>

Expenditures are down \$536,000 from the prior year due to the completion of a major road construction project, and the completion of the new fire hall.

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Business-Type Activities -The City's Proprietary fund shows the activity of the Water fund, Sewer fund and Garbage Collection fund. The Water fund reported net assets of \$3 million and a net increase in net assets of \$16,000. The increase in net assets is mainly due to the increase in operating revenues of \$11,000. The Sewer fund reported net assets of \$7.9 million and a net decrease of \$26,000. The decrease in net assets is mainly due to an increase in building and equipment maintenance of \$11,000 and an increase in depreciation of \$5,000. The Garbage Collection fund reported net assets of \$21,000 and a net increase of \$1,000. The net increase in net assets is mainly due to the increase in charges for services of \$4,000.

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2004

General Fund Budgetary Highlights

Over the course of the year, the City revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the City's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Changes to the General Fund original budget were as follows:

Budgeted revenues were decreased in anticipation of greater than expected cuts in State Revenue Sharing. The actual revenues were greater than budgeted because State Revenue Sharing cuts were not as great as anticipated and other planned State Revenue Sharing cuts were restored. Also, there was an increase in labor and equipment funds paid to the General Fund from the Major and Local Street Funds because of higher than normal winter maintenance activities.

Budget expenses were reduced primarily due to a reclassification of contingency funds to fund balance. The actual expenses were less than anticipated primarily due to delaying certain projects until next year. Also, maintenance and repair costs for city buildings, grounds and equipment were less than anticipated.

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Capital Assets

At December 31, 2004, the City had \$17 million invested in a broad range of capital assets, including land, buildings, furniture, equipment and sewer and water systems. This amount represents a net decrease (including additions and disposals) of approximately \$126,000 or 1%, from last year. The amounts below are shown in thousands.

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2004	2003	2004	2003	2004	2003
Land	\$ 326	\$ 326	\$ 317	\$ 317	\$ 643	\$ 643
Buildings and improvements	1,206	1,201	3,871	3,871	5,077	5,072
Land improvements	41	41			41	41
Vehicles	837	716	0	0	837	716
Machinery and equipment	753	697	1,003	998	1,756	1,695
Water system	0		4,184	4,082	4,184	4,082
Sewer system	0	0	8,170	7,920	8,170	7,920
 Total capital assets	 3,163	 2,981	 17,545	 17,188	 20,708	 20,169
 Less accumulated depreciation	 1,013	 830	 2,695	 2,311	 3,708	 3,141
 Net capital assets	 <u>\$ 2,150</u>	 <u>\$ 2,151</u>	 <u>\$ 14,850</u>	 <u>\$ 14,877</u>	 <u>\$ 17,000</u>	 <u>\$ 17,028</u>

This year's additions of \$559,000 included vehicles, equipment, fire truck, building improvements, water and sewer systems.

In 2005, the City plans on acquiring a parcel of land next to the library, a new leaf vacuum truck, paving of County Farm Street from Mostetler Road to Lily Lake Road, along with the continuation of adding more sidewalks, various improvements to the water sewer systems, park system and cemetery expansion.

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Debt

At the end of this year, the City had \$6,034,000 in long-term debt outstanding versus \$6,120,000 in the previous year – a change of 1.4%. The City's debt includes revenue bonds for its sewer and water systems and general obligation bonds for its fire hall. This debt is summarized as follows:

	<u>2004</u>	<u>2003</u>
Revenue Bonds	\$ 5,261,000	\$ 5,334,000
General Obligation Bonds	<u>773,000</u>	<u>786,000</u>
	<u>\$ 6,034,000</u>	<u>\$ 6,120,000</u>

Factors Expected to Have an Effect on Future Operations

We expect to see a decline in state shared revenue next year as the State of Michigan continues to face challenges in balancing its budget. We will need to adjust City expenditures in response to any revenue shortfall.

Contacting The City's Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City Clerk's Office at PO Box 378, Harrison, Michigan 48625.

CITY OF HARRISON
Statement of Net Assets
December 31, 2004

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and investments	\$ 1,650,764	\$ 1,363,617	\$ 3,014,381
Receivables (net)	100,072	29,051	129,123
Prepaid expenses	5,830	0	5,830
Capital assets - less accumulated depreciation of \$3,707,641	<u>2,150,275</u>	<u>14,850,488</u>	<u>17,000,763</u>
Total Assets	<u>3,906,941</u>	<u>16,243,156</u>	<u>20,150,097</u>
<u>Liabilities</u>			
Accounts payable	159	0	159
Customers' deposits	5,830	3,490	9,320
Interest payable	2,988	0	2,988
Noncurrent liabilities:			
Due within one year	14,000	75,000	89,000
Due in more than one year	<u>759,000</u>	<u>5,186,000</u>	<u>5,945,000</u>
Total Liabilities	<u>781,977</u>	<u>5,264,490</u>	<u>6,046,467</u>
<u>Net Assets</u>			
Invested in capital assets net of related debt	1,374,287	9,589,488	10,963,775
Restricted for other purposes	0	485,500	485,500
Unrestricted	<u>1,750,677</u>	<u>903,678</u>	<u>2,654,355</u>
Total Net Assets	<u>\$ 3,124,964</u>	<u>\$ 10,978,666</u>	<u>\$ 14,103,630</u>

See accompanying notes to financial statements

CITY OF HARRISON
Statement of Activities
For the Year Ended December 31, 2004

Functions/Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<u>Primary government:</u>					
General government	\$ 268,397	\$ 0	\$ (137,566)	\$ 0	\$ (137,566)
Public service	422,559	0	(422,559)	0	(422,559)
Public safety	353,250	0	(194,829)	0	(194,829)
Culture and recreation	256,420	0	(120,073)	0	(120,073)
Highways and streets	191,272	0	(191,272)	0	(191,272)
Interest on long-term debt	36,434	0	(36,434)	0	(36,434)
Other	2,391	0	(2,391)	0	(2,391)
Total governmental activities	1,530,723	0	(1,105,124)	0	(1,105,124)
<u>Business-type activities:</u>					
Sewer	657,472	122,000	0	(62,184)	(62,184)
Water	373,936	68,000	0	10,249	10,249
Garbage and collection	102,513	0	0	969	969
Total business-type activities	1,133,921	190,000	0	(50,966)	(50,966)
Total primary government	\$ 2,664,644	\$ 190,000	(1,105,124)	(50,966)	(1,156,090)
<u>General Revenues:</u>					
Property taxes			608,751	0	608,751
State shared revenues			379,328	0	379,328
Investment earnings			12,551	14,505	27,056
Transfers			0	27,565	27,565
Miscellaneous			132,068	0	132,068
Total general revenues			1,132,698	42,070	1,174,768
Change in net assets			27,574	(8,896)	18,678
Net assets - beginning of year			3,097,390	10,987,562	14,084,952
Net assets - end of year			\$ 3,124,964	\$ 10,978,666	\$ 14,103,630

See accompanying notes to financial statements

CITY OF HARRISON
Governmental Funds
Balance Sheet
December 31, 2004

	General Fund	Library Operating Fund	Fire Fund	Local Improvement Fund	Other Nonmajor Governmental Funds	Total
<u>Assets</u>						
Cash and investments	\$ 505,073	\$ 69,386	\$ 9,644	\$ 772,914	\$ 293,747	\$ 1,650,764
Receivables - net	81,629	0	0	0	18,443	100,072
Due from other governmental units	0	0	0	0	0	0
Prepaid expenditures and advances	0	5,830	0	0	0	5,830
Total assets	<u>\$ 586,702</u>	<u>\$ 75,216</u>	<u>\$ 9,644</u>	<u>\$ 772,914</u>	<u>\$ 312,190</u>	<u>\$ 1,756,666</u>
<u>Liabilities and Fund Balance</u>						
<u>Liabilities</u>						
Accrued expenses	\$ 159	0	0	0	0	\$ 159
Deferred revenue	0	5,830	0	0	0	5,830
Total liabilities	<u>159</u>	<u>5,830</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,989</u>
<u>Fund Balance</u>						
Unreserved	586,543	69,386	9,644	772,914	312,190	1,750,677
Total fund balance	<u>586,543</u>	<u>69,386</u>	<u>9,644</u>	<u>772,914</u>	<u>312,190</u>	<u>1,750,677</u>
Total Liabilities and Fund Balance	<u>\$ 586,702</u>	<u>\$ 75,216</u>	<u>\$ 9,644</u>	<u>\$ 772,914</u>	<u>\$ 312,190</u>	<u>\$ 1,756,666</u>

See accompanying notes to financial statements

CITY OF HARRISON
Reconciliation of Balance Sheet of Governmental Funds
to the Statement of Net Assets
December 31, 2004

Total fund balances - governmental funds \$ 1,750,677

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the funds:

Cost of the capital assets	3,163,120
Accumulated depreciation	(1,012,845)

Accrued interest payable is not included as a liability in governmental activities.	(2,988)
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Long-term liabilities are not due and payable in the current
period and are not reported in the funds:

Bonds payable	<u>(773,000)</u>
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Total net assets - governmental activities	<u><u>\$ 3,124,964</u></u>
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See accompanying notes to financial statements

CITY OF HARRISON
Governmental Funds
Statement of Revenues, Expenditures and
Changes in Fund Balance
For the Year Ended December 31, 2004

	General Fund	Library Operating Fund	Fire Fund	Local Improvement Fund	Other Nonmajor Governmental Funds	Total
Revenues						
State shared revenue	\$ 194,421	\$ 11,706	\$ 0	\$ 0	\$ 173,201	\$ 379,328
Taxes and penalties	581,975	0	0	0	26,776	608,751
Cable franchise	15,080	0	0	0	0	15,080
Reimbursements from street funds	80,688	0	0	0	0	80,688
Charges for services	25,493	136,347	158,421	0	0	320,261
Miscellaneous	5,644	26,292	36,392	52,346	11,394	132,068
Interest	3,517	890	865	5,311	1,968	12,551
Sales	9,570	0	0	0	0	9,570
Total revenues	916,388	175,235	195,678	57,657	213,339	1,558,297
Expenditures						
Current:						
General government	265,177	0	0	0	0	265,177
Public safety	173,191	0	96,970	0	0	270,161
Public service	200,767	0	0	95,290	26,850	322,907
Highways and streets	0	0	0	0	182,436	182,436
Recreation and cultural	32,916	207,536	0	0	0	240,452
Other	2,391	0	0	0	0	2,391
Capital outlay	0	0	102,900	79,207	0	182,107
Debt service:						
Principal	0	0	0	0	13,000	13,000
Interest	0	0	0	0	36,353	36,353
Total expenditures	674,442	207,536	199,870	174,497	258,639	1,514,984
Excess (deficiency) of revenues over expenditures	241,946	(32,301)	(4,192)	(116,840)	(45,300)	43,313
Other Financing Sources (Uses)						
Transfers in	0	41,104	0	158,000	122,365	321,469
Transfers (out)	(199,104)	0	(68,082)	(45,000)	(36,848)	(349,034)
Total other financing sources (uses)	(199,104)	41,104	(68,082)	113,000	85,517	(27,565)
Excess (deficiency) of revenues and other sources over expenditures and other financing uses	42,842	8,803	(72,274)	(3,840)	40,217	15,748
Fund balance - beginning of year	543,701	60,583	81,918	776,754	271,973	1,734,929
Fund balance - end of year	\$ 586,543	\$ 69,386	\$ 9,644	\$ 772,914	\$ 312,190	\$ 1,750,677

See accompanying notes to financial statements

CITY OF HARRISON
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2004

Net change in fund balance - total governmental funds	\$ 15,748
Amounts reported for governmental activities in the statements of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	
Depreciation expense	(183,201)
Capital outlay	182,107
Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid.	(80)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).	<u>13,000</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 27,574</u></u>

See accompanying notes to financial statements

CITY OF HARRISON
Proprietary Fund
Statement of Net Assets
December 31, 2004

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Collection Fund</u>	<u>Total</u>
<u>Assets</u>				
Current assets:				
Cash and investments	\$ 603,326	\$ 745,875	\$ 14,416	\$ 1,363,617
Accounts receivable	<u>2,431</u>	<u>19,584</u>	<u>7,036</u>	<u>29,051</u>
Total current assets	605,757	765,459	21,452	1,392,668
Capital assets less accumulated depreciation of \$2,694,796	<u>4,494,863</u>	<u>10,355,625</u>	<u>0</u>	<u>14,850,488</u>
Total Assets	<u>\$ 5,100,620</u>	<u>\$ 11,121,084</u>	<u>\$ 21,452</u>	<u>\$ 16,243,156</u>
<u>Liabilities</u>				
Current liabilities:				
Customer deposits	\$ 3,490	\$ 0	\$ 0	\$ 3,490
Current portion of bonds payable	<u>33,000</u>	<u>42,000</u>	<u>0</u>	<u>75,000</u>
Total current liabilities	36,490	42,000	0	78,490
Bonds payable	<u>2,035,000</u>	<u>3,151,000</u>	<u>0</u>	<u>5,186,000</u>
Total Liabilities	<u>2,071,490</u>	<u>3,193,000</u>	<u>0</u>	<u>5,264,490</u>
<u>Net Assets</u>				
Invested in capital assets - net of related debt	2,426,863	7,162,625	0	9,589,488
Restricted	197,500	288,000	0	485,500
Unrestricted	<u>404,767</u>	<u>477,459</u>	<u>21,452</u>	<u>903,678</u>
Total Net Assets	<u>\$ 3,029,130</u>	<u>\$ 7,928,084</u>	<u>\$ 21,452</u>	<u>\$ 10,978,666</u>

See accompanying notes to financial statements

CITY OF HARRISON
Proprietary Fund
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended December 31, 2004

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Collection Fund</u>	<u>Total</u>
<u>Operating Revenues</u>				
Charges for water and sewer services	\$ 272,209	\$ 457,875	\$ 103,482	\$ 833,566
Miscellaneous	20,452	15,413	0	35,865
Total operating revenues	<u>292,661</u>	<u>473,288</u>	<u>103,482</u>	<u>869,431</u>
<u>Operating Expenses</u>				
Wages and salaries	47,788	81,738	0	129,526
Fringe benefits	19,999	50,702	0	70,701
Operating expenses	13,715	6,809	0	20,524
Contractual servcies	0	13,143	102,467	115,610
Professional development	6,126	884	0	7,010
Building and equipment maintenance	8,943	23,517	0	32,460
Utilities	15,053	50,019	0	65,072
Insurance	6,419	8,825	0	15,244
Depreciation	140,945	261,184	0	402,129
Other expenses	19,383	8,773	46	28,202
Total operating expenses	<u>278,371</u>	<u>505,594</u>	<u>102,513</u>	<u>886,478</u>
Operating income (loss)	<u>14,290</u>	<u>(32,306)</u>	<u>969</u>	<u>(17,047)</u>
<u>Nonoperating Revenues (Expenses)</u>				
Rental income	23,524	0	0	23,524
Interest income	6,579	7,926	0	14,505
Grant revenue	68,000	122,000	0	190,000
Miscellaneous	0	(113)	0	(113)
Interest expenses and fees	(95,565)	(151,765)	0	(247,330)
Transfers in	0	27,565	0	27,565
Total nonoperating revenues	<u>2,538</u>	<u>5,613</u>	<u>0</u>	<u>8,151</u>
Change in net assets	16,828	(26,693)	969	(8,896)
Net assets - beginning of year	<u>3,012,302</u>	<u>7,954,777</u>	<u>20,483</u>	<u>10,987,562</u>
Net assets - end of year	<u>\$ 3,029,130</u>	<u>\$ 7,928,084</u>	<u>\$ 21,452</u>	<u>\$ 10,978,666</u>

See accompanying notes to financial statements

CITY OF HARRISON
Proprietary Fund
Statement of Cash Flows
For the Year Ended December 31, 2004

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Collection Fund</u>	<u>Total</u>
<u>Cash flows from operating activities</u>				
Cash received from customers	\$ 292,318	\$ 473,179	\$ 105,251	\$ 870,748
Cash payments to suppliers for goods and services	(69,913)	(111,970)	(102,513)	(284,396)
Cash payments to employees for services	(67,787)	(132,440)	0	(200,227)
Net cash provided by operating activities	<u>154,618</u>	<u>228,769</u>	<u>2,738</u>	<u>386,125</u>
<u>Cash flows from capital and related financing activities</u>				
Operating transfers in	0	27,565	0	27,565
Grant revenue	68,000	122,000	0	190,000
Acquisitions of capital assets	(125,740)	(251,145)	0	(376,885)
Principal paid on long-term debt	(33,000)	(40,000)	0	(73,000)
Interest paid on long-term debt	(95,565)	(151,765)	0	(247,330)
Net cash (used) by capital and related financing activities	<u>(186,305)</u>	<u>(293,345)</u>	<u>0</u>	<u>(479,650)</u>
<u>Cash flows from noncapital and related financing activities</u>				
Rental income	<u>23,524</u>	<u>(113)</u>	<u>0</u>	<u>23,411</u>
<u>Cash flows from investing activities</u>				
Interest and investment revenue	<u>6,579</u>	<u>7,926</u>	<u>0</u>	<u>14,505</u>
Net increase (decrease) in cash and investments	(1,584)	(56,763)	2,738	(55,609)
Cash and investments - beginning of year	<u>604,910</u>	<u>802,638</u>	<u>11,678</u>	<u>1,419,226</u>
Cash and investments - end of year	<u>\$ 603,326</u>	<u>\$ 745,875</u>	<u>\$ 14,416</u>	<u>\$ 1,363,617</u>
<u>Reconciliation of Cash Flows from Operations</u>				
Operating income (loss)	\$ 14,290	\$ (32,306)	\$ 969	\$ (17,047)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	140,945	261,184	0	402,129
Changes in operating assets and liabilities:				
Accounts receivable	(343)	(109)	1,769	1,317
Customer deposits	(274)	0	0	(274)
Net cash provided by operating activities	<u>\$ 154,618</u>	<u>\$ 228,769</u>	<u>\$ 2,738</u>	<u>\$ 386,125</u>

See accompanying notes to financial statements.

CITY OF HARRISON
Fiduciary Fund
Statement of Net Assets
December 31, 2004

	Agency Fund Type (Property Tax Collection Fund)
<u>Assets</u>	
Cash	<u>\$ 61,983</u>
<u>Liabilities</u>	
Undistributed taxes	<u>\$ 61,983</u>

See accompanying notes to financial statements

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Harrison conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Harrison:

Reporting Entity

The City of Harrison is governed by an elected council with a city clerk overseeing daily operations. The accompanying financial statements present the financial position and results of operations for the City.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The nonmajor funds are presented in a single column in the fund financial statements and are detailed in the other supplemental information. On the proprietary fund statements, the garbage collection fund is a nonmajor fund.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the City has elected for proprietary funds not to apply Financial Accounting Standards Board statements issued after November 30, 1989.

The City reports the following major governmental funds:

General Fund – The General Fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues.

Library Operating Fund – The Library Operating Fund is used to maintain and update the library facilities.

Fire Fund – The Fire Fund is used to record transactions relative to the fire services provided by the City.

Local Improvement Fund – The Local Improvement Fund is used to record transactions relative to the local improvement services provided by the City.

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City reports the following major proprietary funds:

Water Fund – The Water Fund accounts for the activities of the water distribution system.

Sewer Fund – The Sewer Fund accounts for the activities of the sewage collection system.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments – Cash and investments are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as “internal balances”.

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Restricted Cash - \$485,500 of the Enterprise Fund's cash and investments is restricted for required bond reserves (Note 11).

Capital Assets – Capital assets, which include land, buildings, equipment and infrastructure assets are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 5 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add value or materially extend asset lives are not capitalized.

Land, building, vehicles, equipment and infrastructure are depreciated using the straight-line method over the following useful lives:

Water system	25 to 30 Years
Sewer system	50 Years
Buildings and improvements	20 to 40 Years
Vehicles	5 to 7 Years
Machinery and equipment	3 to 12 Years

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Accounting Change – Effective January 1, 2004, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the City's financial statements as a result of GASB No. 34 are described below:

A Management's Discussion and Analysis (MD&A) section providing analysis of the City's overall financial position and results of operations has been included.

Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the City's activities have been provided. Statement 34 requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted.

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net assets from governmental activities at January 1, 2004 have been restated as follows:

Total fund equity per 2003 financial statements	\$ 1,734,929
Capital assets owned by the City	2,981,013
Accumulated depreciation on capital assets	(829,645)
Accrued interest payable	(2,907)
General long-term debt	(786,000)
	<hr/>
Net assets at January 1, 2004, as restated	\$ 3,097,390
	<hr/>

NOTE 2 – BUDGETS

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of governments prior to the expenditure of monies in a fiscal year.

The City of Harrison follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The City Clerk submits to the City Council a proposed budget prior to December 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended, by the City Council throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the fund level, and are adopted on a basis consistent with the accounting policies used in preparation of the financial statements.
4. Appropriations lapse at year-end. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board) for the General Fund, Library Operating Fund, Fire Fund and Local Improvement Fund are presented as Required Supplemental Information.

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2004

NOTE 2 – BUDGETS (CONTINUED)

Excess of Expenditures Over Appropriations in Budgeted Funds – During the year, the City of Harrison incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Fund/Function</u>	<u>Total Appropriation</u>	<u>Amount of Expenditure</u>	<u>Budget Variance</u>
Library Fund:			
Expenditures	\$ 185,520	\$ 207,536	\$ 22,016

NOTE 3 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rates within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The City's deposits are in accordance with statutory authority.

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

Governmental activities	\$ 1,650,764
Business-type activities	1,363,617
Fiduciary funds	<u>61,983</u>
Total	<u>\$ 3,076,364</u>

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2004

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	\$ 3,029,091
Investments	47,148
Petty cash and cash on hand	<u>125</u>
Total	<u><u>\$ 3,076,364</u></u>

The bank balance of the City's deposits is \$3,306,989, of which \$100,000 is covered by federal depository insurance.

Investments are categorized into these three categories of credit risk:

Category 1 – Insured or registered, or securities held by the City or its agent in the City's name;

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 – Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Local City's name.

At year-end, the City's investment balances not subject to categorization were as follows:

CLASS of Michigan money market accounts	<u><u>\$ 47,148</u></u>
-----------------------------------------	-------------------------

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2004

NOTE 4 - CAPITAL ASSETS

	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 326,202	\$ 0	\$ 0	\$ 326,202
Capital assets being depreciated:				
Buildings and improvements	1,201,084	5,400	0	1,206,484
Land improvements	40,800	0	0	40,800
Vehicles	716,402	120,207	0	836,609
Machinery and equipment	696,525	56,500	0	753,025
Subtotal	2,654,811	182,107	0	2,836,918
Less accumulated depreciation for:				
Buildings and improvements	153,553	34,549	0	188,102
Land improvements	28,062	579	0	28,641
Vehicles	279,869	65,697	0	345,566
Machinery and equipment	368,160	82,376	0	450,536
Subtotal	829,644	183,201	0	1,012,845
Net capital assets being depreciated	1,825,167	(1,094)	0	1,824,073
Governmental activities, total capital assets - net of depreciation	<u>\$ 2,151,369</u>	<u>\$ (1,094)</u>	<u>\$ 0</u>	<u>\$ 2,150,275</u>
<u>Business-type activities</u>				
Capital assets not being depreciated:				
Land	\$ 316,997	\$ 0	\$ 0	\$ 316,997
Capital assets being depreciated:				
Water system	4,081,879	102,009	0	4,183,888
Sewer system	7,918,637	251,145	0	8,169,782
Buildings	3,871,482	0	0	3,871,482
Machinery and equipment	997,602	23,730	18,197	1,003,135
Total capital assets being depreciated	16,869,600	376,884	18,197	17,228,287
Less accumulated depreciation for:				
Water system	519,471	90,826	0	610,297
Sewer system	1,500,220	164,011	0	1,664,231
Buildings	91,828	78,302	0	170,130
Machinery and equipment	199,345	68,990	18,197	250,138
	2,310,864	402,129	18,197	2,694,796
Net capital assets being depreciated	14,558,736	(25,245)	0	14,533,491
Business-type activities, total capital assets, net of depreciation	<u>\$ 14,875,733</u>	<u>\$ (25,245)</u>	<u>\$ 0</u>	<u>\$ 14,850,488</u>

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2004

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 3,220
Public safety	64,360
Culture and recreation	15,968
Public service	99,653
	<hr/>
Total governmental activities depreciation expense	\$ 183,201
	<hr/>
Business-type activities:	
Sewer	\$ 261,184
Water	140,945
	<hr/>
Total business-type activities depreciation expense	\$ 402,129
	<hr/>

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A summary of transfers made during the year ended December 31, 2004 are as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 0	\$ 199,104
Library Fund	41,104	0
Fire Fund	0	68,082
Local Improvement Fund	158,000	45,000
Major Street Fund	0	32,462
Local Street Fund	73,011	4,386
Building Authority Fund	49,354	0
Sewer Fund	27,565	0
	<hr/>	<hr/>
	\$ 349,034	\$ 349,034
	<hr/>	<hr/>

The General Fund transferred \$158,000 to the Local Improvement Fund and \$41,104 to the Library Fund to cover operational costs

The Fire Fund transferred \$18,729 to the Sewer Fund and \$49,353 to the Building Authority Fund to cover operational costs.

The Major Street Fund transferred \$28,011 to the Local Streets Fund and \$4,451 to the Sewer Fund to cover operational costs and to cover construction costs associated with the sewer construction project.

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2004

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)

The Local Street Fund transferred \$4,386 to the Sewer Fund to cover construction costs associated with the sewer construction project.

The Local Improvement Fund transferred \$45,000 to the Local Street Fund to cover cost for improving the local streets.

There were no inter-fund receivable or payable balances at December 31, 2004.

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2004

NOTE 6- LONG-TERM DEBT

A summary of the City's long term debt is as follows:

Government Activities

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
2002 Building Authority Bonds, due in annual installments of \$1,000 to \$25,000 through December 1, 2031, with an interest rate of 4.625%.	\$ 786,000	\$ (13,000)	\$ 773,000

Business-Type Activities

1984 Water System Revenue Bonds, due in annual installments of \$5,000 to \$30,000 through December 31, 2020 with an interest rate of 5.0%.	\$ 360,000	\$ (15,000)	\$ 345,000
2002 Water Supply System Junior Lien Revenue bonds, due in annual installments of \$1,000 to \$94,000 through July 1, 2040 with an interest rate of 4.5%.	1,741,000	(18,000)	1,723,000
1994 Sewer Disposal System Revenue Bonds, series 92-04, due in annual installments of \$1,000 to \$12,000 through September 1, 2033 with an interest rate of 5.0%.	1,068,000	(16,000)	1,052,000
1994 Sewer Disposal System Revenue Bonds, series 92-04, due in annual installments of \$1,000 to \$12,000 through September 1, 2033 with an interest rate of 5.0%.	188,000	(3,000)	185,000

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2004

NOTE 6- LONG-TERM DEBT (CONTINUED)

<u>Business-Type Activities (Continued)</u>	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
2002 Sewage Disposal System Junior Lien Revenue Bonds, due in annual installments of \$3,000 to \$105,000 through September 1, 2041 with an interest rate of 4.5%.	\$ 1,977,000	\$ (21,000)	\$ 1,956,000
Total Business-Type Activities	<u>\$ 5,334,000</u>	<u>\$ (73,000)</u>	<u>\$ 5,261,000</u>

Long-term obligation activity can be summarized as follows:

	<u>Balance January 1, 2004</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance December 31, 2004</u>	<u>Amount Due Within One Year</u>
<u>Governmental Activities</u>					
General Obligation Bonds	<u>\$ 786,000</u>	<u>\$ 0</u>	<u>\$ 13,000</u>	<u>\$ 773,000</u>	<u>\$ 14,000</u>
<u>Business-Type Activities</u>					
Revenue Bonds	<u>\$5,334,000</u>	<u>\$ 0</u>	<u>\$ 73,000</u>	<u>\$5,261,000</u>	<u>\$ 75,000</u>

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2004

NOTE 6- LONG-TERM DEBT (CONTINUED)

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ended December 31	Government-Type Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2005	\$ 14,000	\$ 35,752	\$ 75,000	\$ 244,250
2006	15,000	35,104	77,000	240,678
2007	16,000	34,410	79,000	237,010
2008	16,000	33,670	83,000	233,253
2009	17,000	32,930	90,000	229,305
2010-2014	100,000	151,932	518,000	1,078,046
2015-2019	129,000	126,216	650,000	942,574
2020-2024	162,000	93,566	683,000	782,386
2025-2029	206,000	52,262	826,000	611,518
2030-2034	98,000	6,844	958,000	397,891
2035-2039	0	0	833,000	194,513
2040-2041	0	0	389,000	22,320
Total	<u>\$ 773,000</u>	<u>\$ 602,686</u>	<u>\$ 5,261,000</u>	<u>\$ 5,213,744</u>

NOTE 7 – EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The City of Harrison participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City of Harrison. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: Municipal Employees' Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling 1-800-767-6377.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiations with the City of Harrison's competitive bargaining units and requires a contribution from the employees of 3% of their annual earnings to the System. The City is required to contribute based on an actuarially determined rate.

Annual Pension Costs – For year ended December 31, 2004, the City of Harrison's annual pension cost of \$46,762 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age normal actuarial cost method. Significant actuarial assumptions used include: (i) an 8% investment rate of return; (ii) projected salary increase of 4.5% per year, and (iii) 2.5% per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period.

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2004

NOTE 7 – EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (CONTINUED)

Three year trend information as of December 31, 2004 follows:

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Annual pension cost	\$ 39,274	\$ 39,427	\$ 46,762
Percentage of APC contributed	100%	100%	100%
Net pension obligation	0	0	0
Actuarial value of assets	1,239,175	1,309,541	1,400,770
Actuarial accrued liability	1,420,965	1,605,753	1,767,485
Unfunded AAL	181,790	296,212	366,715
Funded ration	87%	82%	79%
Covered payroll	356,093	414,276	416,780
UAAL as a percentage of covered payroll	51%	72%	88%

NOTE 8 – POST-EMPLOYMENT BENEFITS

The City has elected to provide post-employment health benefits to certain retirees and their beneficiaries. Substantially all of the City's employees become eligible for these benefits if they reach normal retirement age while working for the City. The benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. Currently, two retirees are eligible for post-employment health benefits. For the fiscal year ended December 31, 2004, the City made payments for post-employment health benefit premiums of \$10,717.

NOTE 9 – OPERATING LEASE

The City leases office and storage space in its fire station to the Department of Natural Resources under an operating lease that expires in June 2013. Annual rent is \$30,815 and the lessee has two five-year options. Minimum future rentals are as follows:

<u>Year</u>	<u>Amount</u>
2005	\$ 30,815
2006	30,815
2007	30,815
2008	30,815
2009	30,815
Thereafter	107,853
	<u>\$261,928</u>

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2004

NOTE 10 – RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts and errors and omissions. The City has purchased commercial insurance for claims relating to general liability and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three years.

NOTE 11– NET ASSETS - RESTRICTED

As required by various bond ordinances, the City has established and funded reserves for bond retirement of \$197,500 for the Water Fund and \$288,000 for the Sewer Fund

Required Supplemental Information

CITY OF HARRISON
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
State shared revenue	\$ 172,300	\$ 162,300	\$ 194,421	\$ 32,121
Property taxes	575,892	575,892	581,975	6,083
Cable franchise	8,300	8,300	15,080	6,780
Reimbursements from street funds	46,000	46,000	80,688	34,688
Charges for services	19,600	19,600	25,493	5,893
Miscellaneous	0	0	5,644	5,644
Interest	2,000	2,000	3,517	1,517
Sales	6,000	6,000	9,570	3,570
Total revenues	830,092	820,092	916,388	96,296
<u>Expenditures</u>				
General government	347,351	352,421	265,177	87,244
Public safety	173,927	173,927	173,191	736
Public service	245,375	252,375	200,767	51,608
Recreation and cultural	47,785	47,785	32,916	14,869
Contingency	250,661	61,589	0	61,589
Other charges	10,750	12,750	2,391	10,359
Total expenditures	1,075,849	900,847	674,442	226,405
Excess (deficiency) of revenues over expenditures	(245,757)	(80,755)	241,946	322,701
<u>Other Financing (Uses)</u>				
Operating transfers out	(102,104)	(199,104)	(199,104)	0
Excess (deficiency) of revenues over expenditures and other financing uses	(347,861)	(279,859)	42,842	322,701
Fund balance - beginning of year	543,701	543,701	543,701	0
Fund balance - end of year	\$ 195,840	\$ 263,842	\$ 586,543	\$ 322,701

CITY OF HARRISON
 Required Supplemental Information
 Budgetary Comparison Schedule - Fire Fund
For the Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Charges for services	\$ 158,421	\$ 158,421	\$ 158,421	\$ 0
Miscellaneous	30,915	30,915	36,392	5,477
Interest	501	501	865	364
Total revenues	189,837	189,837	195,678	5,841
<u>Expenditures</u>				
Public safety	195,618	252,402	199,870	52,532
Excess (deficiency) of revenues over expenditures	(5,781)	(62,565)	(4,192)	58,373
<u>Other Financing Sources (Uses)</u>				
Operating transfers out	(49,353)	(67,353)	(68,082)	(729)
Excess (deficiency) of revenues over expenditures and other financing uses	(55,134)	(129,918)	(72,274)	57,644
Fund balance - beginning of year	81,918	81,918	81,918	0
Fund balance - end of year	\$ 26,784	\$ (48,000)	\$ 9,644	\$ 57,644

CITY OF HARRISON
 Required Supplemental Information
 Budgetary Comparison Schedule - Local Improvement Fund
For the Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Miscellaneous	\$ 0	\$ 0	\$ 52,346	\$ 52,346
Interest	3,000	3,000	5,311	2,311
Total revenues	3,000	3,000	57,657	54,657
<u>Expenditures</u>				
Public service	749,951	937,754	174,497	763,257
Excess (deficiency) of revenues over expenditures	(746,951)	(934,754)	(116,840)	817,914
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	61,000	158,000	158,000	0
Operating transfers out	0	0	(45,000)	(45,000)
Total other financing sources (uses)	61,000	158,000	113,000	(45,000)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(685,951)	(776,754)	(3,840)	772,914
Fund balance - beginning of year	776,754	776,754	776,754	0
Fund balance - end of year	\$ 90,803	\$ 0	\$ 772,914	\$ 772,914

CITY OF HARRISON
 Required Supplemental Information
 Budgetary Comparison Schedule - Library Operating Fund
For the Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
State shared revenue	\$ 11,696	\$ 11,696	\$ 11,706	\$ 10
Charges for services	121,154	121,154	136,347	15,193
Miscellaneous	31,015	31,015	26,292	(4,723)
Interest	300	300	890	590
Total revenues	164,165	164,165	175,235	11,070
<u>Expenditures</u>				
Library	185,520	185,520	207,536	(22,016)
Excess (deficiency) of revenues over expenditures	(21,355)	(21,355)	(32,301)	(10,946)
<u>Other Financing Sources</u>				
Operating transfer in	38,890	38,890	41,104	2,214
Excess (deficiency) of revenues and other financing sources over expenditures	17,535	17,535	8,803	(8,732)
Fund balance - beginning of year	60,583	60,583	60,583	0
Fund balance - end of year	\$ 78,118	\$ 78,118	\$ 69,386	\$ (8,732)

Other Supplemental Information

CITY OF HARRISON
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2004

	Major Streets Fund	Local Streets Fund	Budd Lake Improvement	Building Authority Fund	Totals
<u>Assets</u>					
Cash and investments	\$ 160,430	\$ 91,994	\$ 36,725	\$ 4,598	\$ 293,747
Taxes receivable	0	0	18,443	0	18,443
Total assets	<u>\$ 160,430</u>	<u>\$ 91,994</u>	<u>\$ 55,168</u>	<u>\$ 4,598</u>	<u>\$ 312,190</u>
 <u>Fund Balance</u>					
Unreserved	<u>\$ 160,430</u>	<u>\$ 91,994</u>	<u>\$ 55,168</u>	<u>\$ 4,598</u>	<u>\$ 312,190</u>

CITY OF HARRISON

Other Supplemental Information

Combining Statement of Revenues, Expenditures and Changes
in Fund Balances - Nonmajor Governmental Funds
For the Year Ended December 31, 2004

	Major Streets Fund	Local Streets Fund	Budd Lake Improvement	Building Authority Fund	Totals
<u>Revenues</u>					
State shared revenue	\$ 112,046	\$ 61,155	\$ 0	\$ 0	\$ 173,201
Taxes	0	0	26,776	0	26,776
Interest	1,440	331	176	21	1,968
Other	5,628	5,766	0	0	11,394
Total revenues	119,114	67,252	26,952	21	213,339
<u>Expenditures</u>					
Public service	0	0	26,400	450	26,850
Highways and streets	99,417	83,019	0	0	182,436
Debt service:					
Principal	0	0	0	13,000	13,000
Interest	0	0	0	36,353	36,353
Total expenditures	99,417	83,019	26,400	49,803	258,639
Excess (deficiency) of revenues over expenditures	19,697	(15,767)	552	(49,782)	(45,300)
<u>Other Financing Sources (Uses)</u>					
Operating transfers in	0	73,011	0	49,354	122,365
Operating transfers (out)	(32,462)	(4,386)	0	0	(36,848)
Total other financing sources (uses)	(32,462)	68,625	0	49,354	85,517
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(12,765)	52,858	552	(428)	40,217
Fund balance - beginning of year	173,195	39,136	54,616	5,026	271,973
Fund balance - end of year	\$ 160,430	\$ 91,994	\$ 55,168	\$ 4,598	\$ 312,190

CITY OF HARRISON
City of Harrison Water Extension Project
Selected Information
For the Year Ended December 31, 2004

1. A separate report on internal control can be found on page 37.
2. The accounting records and methods were satisfactorily maintained.
3. Proper physical controls over assets were exercised.
4. Deposited funds of \$225,326 are in institutions insured by the Federal Government. However, auto investment sweep accounts (formerly municipal investment fund accounts) of \$378,000 are not insured.
5. The financial records reflected in the audit are in agreement with the accounting records of the Water Supply System.
6. The aging of accounts receivable is as follows:

0 - 30 days	\$ 780
31 - 60 days	797
61 - 90 days	564
91 days and older	290
	<u>\$ 2,431</u>

7. The loan agreement requires the maintenance of cash reserves in the amount of \$1,000 and \$500 be deposited quarterly to the Junior Lien Bond Reserve Account and Replacement Account, respectively, until a total of \$32,000 and \$5,000 has been reached, respectively. The loan agreement also requires the maintenance of a cash reserve deposited in the Junior Lien Redemption Account for payment of principal and interest on the Bonds. A sum equal to at least $\frac{1}{2}$ of the interest due on the next ensuing interest due date and not less than $\frac{1}{4}$ of the principal maturing on the next ensuing principal payment date is required. The Bond Reserve Account and the Replacement Account have a balance of \$32,000 and \$5,000, respectively, as of December 31, 2004. The Junior Lien Redemption Account has a balance of \$16,500 as of December 31, 2004.
8. The City of Harrison carries the following insurance policies:
 - a. Comprehensive general liability and public officials errors and omissions, policy number MML001303120, policy amount of \$5,000,000, expiration date 1/1/05.

CITY OF HARRISON
City of Harrison Water Extension Project
Selected Information
For the Year Ended December 31, 2004

- b. Property policy to cover the fixed assets of Water Supply System, policy number MML001303120, policy amount of \$580,869, expiration date 1/1/05.
 - c. Business auto liability, policy number MML001303120, policy amount of \$5,000,000, expiration date 1/1/05.
 - d. Fidelity bond covering city treasurer, policy number BSH-1795522, policy amount of \$60,000, expiration date 9/1/05.
9. The following is a list of the names and addresses of all members of the governing body, as appropriate, with their office and term of office for the City of Harrison City Council.

Mayor

Brook Wood November 2006
1380 Byfield
Harrison, MI 48625

Council Members

Chris Damvelt November 2006
2600 Mostetler
Harrison, MI 48625

James Seney November 2006
220 E. Spruce
Harrison, MI 48625

Linda O'Leary November 2006
202 N. Lake Street
Harrison, MI 48625

Stacey Stocking November 2008
314 S. Second Street
Harrison, MI 48625

David Rowe November 2008
209 W. Park
Harrison, MI 48625

Daniel Sullivan November 2008
292 E. Pine Street
Harrison, MI 48625

Dates shown are term expiration dates

10. No further information is necessary for full disclosure.



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

THOMAS L. TAGLAUER, CPA
ROBERT E. LIST, CPA
STEWART J. REID, CPA
MICHAEL L. HANISKO, CPA
DAVID D. QUIMBY, CPA
KATHLYN M. ENGELHARDT, CPA
RENAE M. CLEVINGER, CPA
AMY L. RODRIGUEZ, CPA

WALTER G. WEINLANDER, CPA
ROY A. SCHAIERER, CPA
JAMES L. WHALEY, CPA
JEROME L. YANTZ, CPA
PHILIP T. SOUTHGATE, CPA
ROBERT J. DUYCK, CPA

January 24, 2005

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the City Council
City of Harrison
Harrison, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harrison as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 24, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Harrison's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

1600 CENTER AVENUE
POST OFFICE BOX 775
BAY CITY, MI 48707-0775
989-893-5577
800-624-2400
FAX 989-895-5842
www.wf-cpas.com
wf@wf-cpas.com

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GLADWIN AND WEST BRANCH

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WEINLANDER FITZHUGH

Members of the City Council
City of Harrison
January 24, 2005

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Harrison's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of the Members of the City Council, management and related regulatory agencies and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Weinlander Fitzhugh



WEINLANDER FITZHUGH

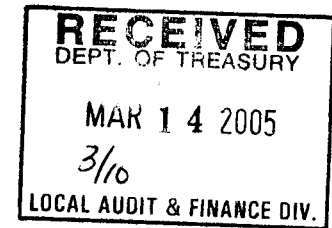
CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

THOMAS L. TAGLAUER, CPA
ROBERT E. LIST, CPA
STEWART J. REID, CPA
MICHAEL L. HANISKO, CPA
DAVID D. QUIMBY, CPA
KATHLYN M. ENGELHARDT, CPA
RENAE M. CLEVINGER, CPA
AMY L. RODRIGUEZ, CPA

WALTER G. WEINLANDER, CPA
ROY A. SCHAIRER, CPA
JAMES L. WHALEY, CPA
JEROME L. YANTZ, CPA
PHILIP T. SOUTHGATE, CPA
ROBERT J. DUYCK, CPA

January 24, 2005

Members of the City Council
City of Harrison
Harrison, Michigan



This letter is intended to inform the City Council about significant matters related to the conduct of the annual audit so it can appropriately discharge its oversight responsibility and that we comply with our professional responsibilities to the City Council.

The following summarizes various matters which must be communicated to you under U.S. generally accepted auditing standards.

The Auditor's Responsibility Under U.S. Generally Accepted Auditing Standards

Our audit of the financial statements of the City for the year ended December 31, 2004 was conducted in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standard*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe our audit accomplished that objective.

In accordance with *Government Auditing Standards*, we have also performed tests of controls and compliance with laws and regulations that contribute to the evidence supporting our opinion on the financial statements. However, they do not provide a basis for opining on the City's internal control or compliance with laws and regulations.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us they used all the relevant facts available to them at the time to make the best judgments about accounting estimates and we considered this information in the scope of our audit. These estimates are relatively insignificant in relation to the financial statements taken as a whole.

1600 CENTER AVENUE
POST OFFICE BOX 775
BAY CITY, MI 48707-0775
989-893-5577
800-624-2400
FAX 989-895-5842
www.wf-cpas.com
wf@wf-cpas.com

OFFICES: BAY CITY, CLARE
GLADWIN AND WEST BRANCH

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WEINLANDER FITZHUGH

Members of the City Council
City of Harrison
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Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Our audit adjustments were not significant.

Accounting Policies and Alternative Treatments

Management and the City Council have the ultimate responsibility for the appropriateness of the accounting policies used by the City. The significant accounting policies adopted by the City are described in Footnote 1 to the financial statements. The City adopted several significant Governmental Accounting Standards Board (GASB) Statements in the current year including:

GASB No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments

GASB No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments: Omnibus

GASB No. 38, Certain Financial Statement Note Disclosures

GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

Disagreements with Management

We encountered no disagreements with management over the application of significant principles, the basis for management’s judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Major Issues Discussed with Management Prior to Retention

No major issues were discussed with management prior to our retention to perform the aforementioned audit.



WEINLANDER FITZHUGH

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Difficulties Encountered in Performing the Audit

We did not encounter any difficulties in dealing with management relating to the performance of the audit.

Other Comments

Internal Control Policies

Statement on Auditing Standard (SAS) No. 99, requires auditors to assess risks of fraud after taking into account the evaluation of the City's programs and controls to prevent, deter and detect fraud. As part of our responsibilities under SAS 99, we have addressed the risk assessment by performing inquiries, completing comprehensive checklists and performing other procedures designed to detect fraud risk factors. SAS 99 further states that it is management's responsibility for designing and implementing effective systems and procedures for preventing, deterring and detecting fraud. While we did not identify any specific fraud risks, we recommend the City periodically review the controls in place to prevent, deter and detect fraud.

Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the City.

This report is intended solely for the information and use of the Members of the City Council and management and is not intended to be, and should not be, used by anyone other than the specified parties.

Weinlander Fitzhugh